

DEPARTMENT OF STATE REVENUE

LETTER OF FINDINGS NUMBER: 95-0688 ST
Sales and Use Tax
For The Tax Periods: 1992 through 1994

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ISSUES

Sales/Use Tax – Manufacturing Equipment Exemption: Shipping Manifest/Load Verification System, Power Conveyor, and Stretch Wrapper.

Authority: IC 6-2.5-2-1, IC 6-2.5-4-1, IC 6-2.5-3-2, IC 6-2.5-5-3, 45 IAC 2.2-5-8

Taxpayer protests the assessment of sales/use tax on shipping manifest/load verification system power conveyor and stretch wrapper.

STATEMENT OF FACTS

Taxpayer is a manufacturer of electrical panels and related components including panel boards, panel boxes and panel trim. These electrical panels are installed in industrial and commercial buildings. The separate parts necessary to outfit the electrical panels are manufactured and packaged individually. The separate items are then consolidated for shipping; the parts are sorted per order to each customer and shrink wrapped using the shipping manifest, power conveyor, and stretch wrapper.

DISCUSSION

Pursuant to IC 6-2.5-2-1, a sales tax, known as state gross retail tax, is imposed on retail transactions made in Indiana. IC 6-2.5-4-1 provides that a retail transaction involves the transfer of tangible personal property. Pursuant to IC 6-2.5-3-2, "an excise tax, known as the use tax, is imposed on the storage, use, or consumption of tangible personal property in Indiana if the property was acquired in a retail transaction, regardless of the location of that transaction or of the retail merchant making that transaction."

Pursuant to IC 6-2.5-5-3(b), transactions involving manufacturing machinery, tools, and equipment are exempt from the state gross retail tax if the person acquiring that property acquires it for direct use in the direct production, manufacture, fabrication, assembly, extraction, mining, processing, refining, or finishing of other tangible personal property.

Taxpayer argues that the shipping manifest/loading verification system, power conveyor and stretch wrapper are an integral part of the production process. Taxpayer contends that this equipment packages each individual order to each customer such that final production is not complete until the parts of each panel board are sorted and packaged for shipment to the customer.

45 IAC 2.2-5-8(d) states that direct use in the production process begins at the point of the first operation or activity constituting part of the integrated production process and ends at the point that the production has altered the item to its completed form, including packaging, if required. Once the electrical panel parts have been manufactured, the complete parts are individually packaged; then, the parts are subject to the technology used by taxpayer to ship their product.

The shipping manifest/loading verification system, power conveyor and stretch wrapper are used subsequent to individual packaging of the parts; this use occurs outside of the integrated production process. The parts for the electrical panel boards are manufactured, produced and individually packaged before they are subject to shipping activities performed by the shipping manifest/loading verification system, power conveyor and stretch wrapper. Shipping is considered a post-production activity; thus, the purchase of equipment used in shipping is subject to Indiana sales and use tax.

FINDING

Taxpayer's protest is denied.